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SUBJECT: GOSS BUDGET SHOWS NEED FOR DONOR ACTION

REF: A) STATE 018712 B) Khartoum 00211

11. Summary: The GOSS 2007 Budget highlights the need for donor action to assist Southern Sudan with budgeting, civil service administration, and cash management in order to assure success of the CPA. The budget also exposes the problem of weak legislative oversight of the military. The GOSS needs to impose greater fiscal discipline. Donors should use the Sudan Consortium in late March, and any potential IGAD meeting in the near future, to coordinate assistance to the GOSS to address these issues. USAID is already providing technical assistance to the GOSS, but other donors need to come on board. End Summary.

12. The Comprehensive Peace Agreement (CPA) seeks to make unity attractive to the South. For this to happen, the GOSS must deliver a 'peace dividend' of improved infrastructure and government services. The GOSS 2007 budget highlights several areas where the GOSS is facing substantial challenges accomplishing this.

#### Transparency and Honesty

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3.(SBU) The narrative portion of the GOSS budget furnishes honest statements of problems the GOSS faces. The GOSS needs to get a handle on these problems early on in order to make the CPA function as intended. There are three especially important concerns: numbers of government personnel, cash management, and, military oversight.

#### Government Employment

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4.(SBU) In section 4.1 of the budget, the legislative assembly expressed concern about the projected personnel levels and the related salaries and wages. The GOSS intends to reduce government personnel from 116,691 to 64,962 (a 44 percent reduction). But even with this decrease, expenses for salaries are projected to nearly triple from 2006 to 2007. Whether the planned decrease will occur remains to be seen. If a disproportionate part of the budget is taken for personnel costs, less is available for investment in infrastructure. Ideally, the budget should be compiled in a way that budgets both number of positions and dollars. Each Ministry should have a ceiling on positions, and the dollar budget should be linked to that number.

#### Cash Management Needs Strengthening

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15. (SBU) For 2007, projections are that the GOSS will receive roughly USD 1 billion in oil revenues and another USD 1.4 billion in non-oil revenues will flow through the GOSS to the 10 southern states. The budget makes numerous references to reserves, bank accounts, transfers and so forth, yet overall, the budget does not evidence a coordinated control of these funds. Projected 2007 revenues are USD 160 million less than expenditures, yet the budget does not mention borrowing. However recent reports in the press

state that the GOSS will borrow USD 250 million from Emirates Bank. The current arrangements do not seem to provide sufficient oversight. Donors should address the question of how to work with the GOSS to improve cash management.

#### Legislative Oversight of Military Lacking

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6.(SBU) In section 4.1.1 of the budget, the legislative assembly bluntly stated, "As the military needs are much larger than our budget could provide, Southern Sudan Legislative Assembly therefore, urges the Commander in Chief of the SPLA to SOLICIT further resources from friendly nations to meet the SPLA needs." This is effectively an instruction to the military to seek off-budget, non-legislated funding. It removes legislative oversight from the budget of the military. Successful implementation of the CPA requires that the legislative assembly play a proper oversight role.

17. (U) Action Request: The Sudan Consortium, scheduled for March 20-21, and a possible IGAD meeting (ref A) provide an opportunity to strengthen the CPA. USAID is already working to address the problems cited in paras 4 and 5 by providing technical assistance to the GOSS Ministry of Finance and committees of the Southern Sudan Assembly. Other donors should be brought onboard and push for the GOSS to impose greater fiscal discipline. Specific actions should include getting agreement from other donors for the GOSS to adopt a transparent, non-chapter budget, and to work with the Ministry of Finance to impose discipline in cash management. Embassy requests that the Department incorporate these topics into preparations for the upcoming meetings.